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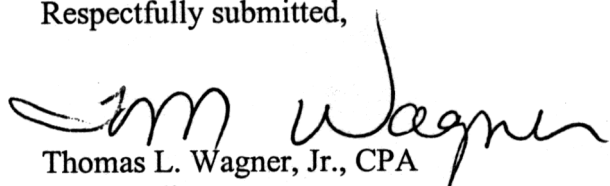
June 22, 2000

The Honorable James H. Hodges, Governor
and
Mr. William D. Catoe, Director
South Carolina Department of Corrections
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina Department of Corrections for the fiscal year ended June 30, 1999, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
STATE OF SOUTH CAROLINA**

COLUMBIA, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

JUNE 30, 1999

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
STATE OF SOUTH CAROLINA**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of both the South Carolina Office of the State Auditor and the South Carolina Department of Corrections (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations with those of the prior year and tested the reasonableness of collected and recorded amounts by revenue account. The individual items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records; were bona fide disbursements of the Department; and, were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Comment 6 in Section A in the Accountant's Comments Section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers

to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and, comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Comment 4 in Section A in the Accountant's Comments section of this report.

4. We tested selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal accounting controls over the tested transactions were adequate. The items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 1999, and tested selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or STARS. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Comment 5 in Section A in the Accountant's Comments section of this report.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1999. Our finding as a result of these procedures is presented in Comment 4 in Section A in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the report on applying agreed-upon procedures to the financial records and internal controls of the Department resulting from our engagement for the fiscal year ended June 30, 1998 dated June 17, 1999 to determine if adequate corrective action has been taken. The deficiencies noted were corrected except as noted in Comments 1 and 5 in Section A in the Accountant's Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Comments 1, 2 and 3 in Section A in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and the management of both the Department and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
June 8, 2000

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
COLUMBIA, SOUTH CAROLINA**

**ACCOUNTANT'S COMMENTS
JUNE 30, 1999**

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the Office of the State Auditor and the Department require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the Department is responsible for establishing and maintaining internal control. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

1. INVENTORY CLOSING PACKAGE DEFICIENCIES

Our test of the inventories reported in the year-end closing package for inventories disclosed the following deficiencies:

- A. The amounts included on the closing package for supply and merchandise inventory for the Division of Industries did not agree with the general ledger and the documentation supporting the inventories on hand at June 30, 1999. The differences are as follows:

	Reported Per Closing Package	Per General Ledger	Over (Under)
Supply inventory	\$ 85,900	\$ 91,688	\$ (5,788)
Merchandise inventory	<u>2,980,904</u>	<u>2,933,238</u>	<u>47,666</u>
Total	<u>\$ 3,066,804</u>	<u>\$ 3,024,926</u>	<u>\$ 41,878</u>

This resulted in the inventories for the Division of Industries to be overstated in the closing package by \$41,878.

- B. Inventories for certain of the Department's locations were incorrectly tabulated. The differences noted are as follows:

1. The inventory listings for the Northside and Perry institutions excluded one item each and were totaled incorrectly. This resulted in the two inventories being understated \$146.
2. One page total for the medical supply storage area inventory was omitted from the total resulting in this inventory being understated \$1,131.

A similar finding was cited in the prior year's report on applying agreed-upon procedures.

Section 3.6 of the GAAP Closing Procedures Manual prepared by the Comptroller General requires the recording of accurate financial information in the Department's year-end inventory closing package. The financial information recorded in the closing package should be independently verified by the person that "approves" the closing package prior to its submission.

We recommend that additional care be exercised in tabulating the inventories. Also, the documentation supporting the amounts included in the closing package should be independently verified by the person that "approves" the closing package prior to its submission.

2. REFUND RECEIVABLES CLOSING PACKAGE DEFICIENCY

The Department duplicated the entries on the refund receivables listing resulting in the amount for two receivables being entered twice on the listing. This occurred because the Department prepared a listing of accounts receivable at June 30, 1999 and an additional listing of receipts through August 20, 1999 and the entries on the two lists were not cross-checked for possible duplications. This resulted in the amount reported on the closing package being overstated by \$2,175.

Section 3.5b of the GAAP Closing Procedures Manual prepared by the Comptroller General requires the Department to determine and report the correct amount of refund receivables on its year-end closing package.

We recommend that additional care be exercised by Department personnel in preparing and reviewing the refund receivables schedule as of each year-end. The two listings should be cross-checked for duplication.

3. ACCRUED COMPENSATED ABSENCES CLOSING PACKAGE DEFICIENCY

Our test of the closing package for accrued compensated absences disclosed that the report supporting the annual and compensatory leave balances as of June 30, 1999 was run before all leave slips for leave taken through June 30, 1999 were entered into the system. Consequently, leave taken during June 1999 for one of the 25 leave balances tested was omitted. The report was run on July 20, 1999 and possibly should have been run at a later date after having the assurance that all leave slips for leave taken through June 30, 1999 were available and included in the year-end report.

Section 3.17 of the GAAP Closing Procedures Manual prepared by the Comptroller General requires the closing package to report the actual accumulated unused leave balances at June 30. Also, good accounting and internal control procedures require the Department to accumulate and maintain accurate records that support the year-end accrued compensated absences balance.

We recommend the Department implement data input and fiscal year-end cut-off procedures to ensure that all leave taken through June 30 is properly entered into the leave system before the compensated absences detail report is produced to obtain closing package information.

4. PAYROLL DEFICIENCIES

Our tests of 25 payroll expenditures disclosed that certain employee files did not include the following documentation as required. The exceptions noted are as follows:

- (1) One file did not contain Federal form I-9 which is required by Federal law.
- (2) Two files did not contain a signed authorization to support withholdings for voluntary deductions.

Good business and internal control practices require the maintenance of accurate and complete documentation to support payroll expenditures and deductions therefrom.

We recommend that procedures be established to ensure all required withholding/deduction documentation is obtained and retained in the employee files.

5. RECONCILIATION DIFFERENCES FOR REVENUES

The Department maintains a general ledger and all of the revenues recorded therein were found to be reconciled and in agreement with the Statewide Accounting and Reporting System (STARS) except for revenues for the Division of Industries. Also, the transactions for the Division of Industries are recorded in a separate general ledger and were not recorded in the Department's general ledger.

This finding was also cited in the prior year's report on applying agreed-upon procedures.

Section 2.1.7.20 of the Statewide Accounting and Reporting System Manual requires the Agency to perform reconciliations monthly on a timely basis and to correct errors promptly.

We recommend that all of the financial transactions of the Division of Industries be recorded in the Department's primary general ledger. Also, the Department should reconcile the revenue amounts for the Division of Industries per the Department's general ledger to the revenue amounts per the STARS report on a monthly basis.

6. INVOICES NOT PAID TIMELY

Our test of expenditures by the Division of Industries disclosed that two of the ten invoices tested were not paid within 30 workdays following the invoice date.

South Carolina Code of Laws Section 11-35-45 requires vouchers to be delivered to the Comptroller General within 30 workdays from acceptance of the goods/services and proper invoice. After the 30 business days, the Department is required to pay interest if requested by the vendor.

We recommend that the Department implement procedures to ensure that all invoices are paid in a timely manner.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the report on applying agreed-upon procedures to the financial records and internal controls of the Department for the fiscal year ended June 30, 1998, dated June 17, 1999. The deficiencies were corrected except for the following as noted in Section A in the Accountant's Comments:

- Inventory Closing Package Deficiencies
- Reconciliation Differences for Revenues

MANAGEMENT'S RESPONSE

Appendix A



JIM HODGES, Governor
WILLIAM D. CATOE, Director

June 22, 2000

Mr. Barry S. Laban
Rogers and Laban, PA
P. O. Box 124
Columbia, SC 29202


Dear Mr. Laban:

The preliminary draft of your report on agreed-upon procedures for the South Carolina Department of Corrections for the fiscal year ended June 30, 1999, has been reviewed and is authorized for release. Enclosed is our response to the Auditor's Comments section of this report.

The Department appreciates the opportunity to participate in the State's review of its accounting records and the review of the system of internal controls. This process always contributes to the accountability of State government and benefits SCDC as well. The Department also appreciates the assistance and competency of your staff.

If you need any further information, please contact the Division of Internal Audits at 896-1737.

Sincerely,


William D. Catoe

MANAGEMENT'S RESPONSE TO THE AGREED-UPON PROCEDURES AUDIT
PERFORMED BY ROGERS AND LABAN, PA, CERTIFIED PUBLIC ACCOUNTANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

1. INVENTORY CLOSING PACKAGE DEFICIENCIES

- A. The Division of Industries made adjustments to the value of its year end inventory after the inventory closing had been filed. The staff of Prison Industries has been informed of the importance of reporting any change in closing package information to the appropriate accounting staff personnel so that closing packages can be amended.
- B. Errors were found in the tabulation of medical supplies inventories from Northside and Perry. Also, the summation of the institutional inventories was incorrect. In the future, the accounting staff personnel preparing the inventory closing will review all documentation for accuracy.

2. REFUND RECEIVABLES CLOSING PACKAGE DEFICIENCY

The Department included two items twice on the refund receivables closing package. A review of this error has found that the procedure used to gather data was flawed and allowed a receivable at June 30 to be included on more than one line item on the closing package. Procedures will be put in place that should prevent this error in the future.

3. ACCRUED COMPENSATED ABSENCES CLOSING PACKAGE DEFICIENCY

The Department has data input and fiscal year-end cut-off procedures in place to ensure that all leave taken is properly recorded and the Division of Human Resources goes to great effort to ensure data is entered in a timely manner. The importance of timely completion and filing of time sheets will be stressed, however, the Division of Human Resources will not enter data until proper documentation is received. The Financial Accounting Branch will delay the creation of the accrued compensated absences until July 24, allowing one week to complete, review and deliver the report.

4. PAYROLL DEFICIENCY

The Department will review procedures to ensure that I-9's are completed in all instances for new employees and will review new hire files to prevent further exceptions. The Division of Human Resources will make every effort to ensure that there is adequate documentation for all voluntary deductions.

5. RECONCILIATION DIFFERENCES FOR REVENUES

In FY99, the Department maintained a general ledger for the Division of Industries separate from the primary general ledger of the Department. The Division of Industries (PI) is an enterprise fund that operates like a private sector company. PI uses a business accounting software system which operates on an accrual basis versus the Statewide Accounting and Reporting System (STARS) that operates on a cash basis. The use of a different basis of accounting creates a more difficult reconciliation, but certainly not an impossible one.

The Department has recognized the need to combine its accounting functions and general ledgers within one Division. In March 1999, the Financial Accounting Branch integrated the Division of Industries' disbursements into the Department's purchasing and payables systems. Also, the Division of Industries' expenditure reconciliations were incorporated into the Department's reconciliation process at that time.

The Division of Industries began processing cash receipts and invoicing through the Department's general ledger on July 1, 1999. For fiscal years beginning after FY99, this will allow the Financial Accounting Branch to reconcile both expenditures and revenues in the same manner that all other expenditures and revenues are reconciled.

6. INVOICES NOT PAID TIMELY

As stated previously, the Division of Industries' disbursements were integrated into the Department's purchasing and payables systems in March 1999. The Department's system has procedures and automated edits in place that should prevent late payment of invoices.